



International Monetary Fund
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France

Presented by
Joong Shik Kang
Research Department

Diagnostics

G-20 Indicative Guidelines

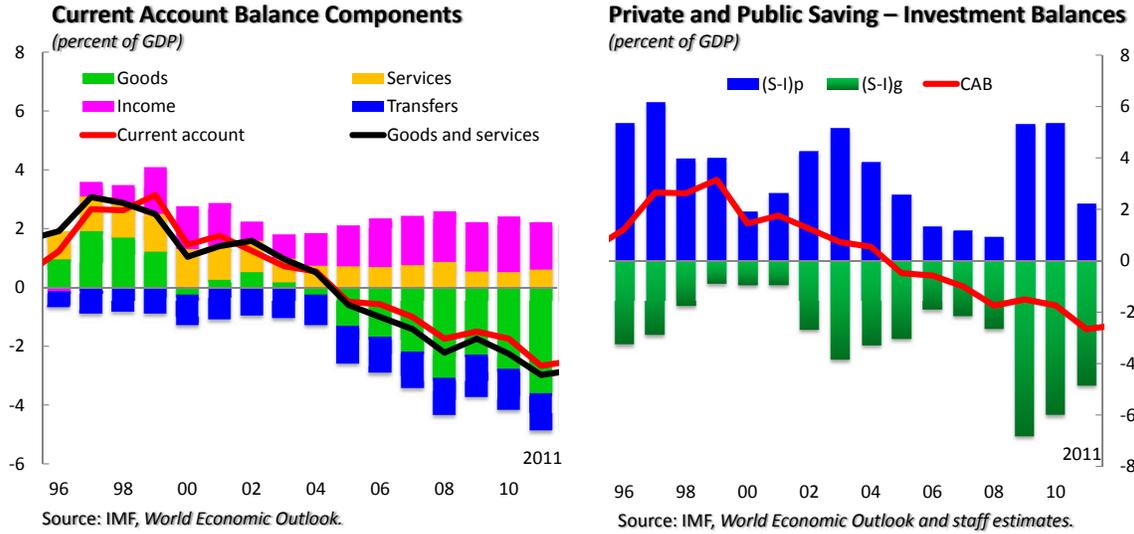
- “Moderate” or “large” external deficits
- “Moderate” or “large” public and private debt

Evolution of Key Imbalances since Late 1990s

- Current account balance has deteriorated since the late 1990s, reflecting a worsening trade balance.
- Public debt was above SGP limits prior to the crisis and has deteriorated substantially following the crisis.
- Private debt has also increased over the past decade.

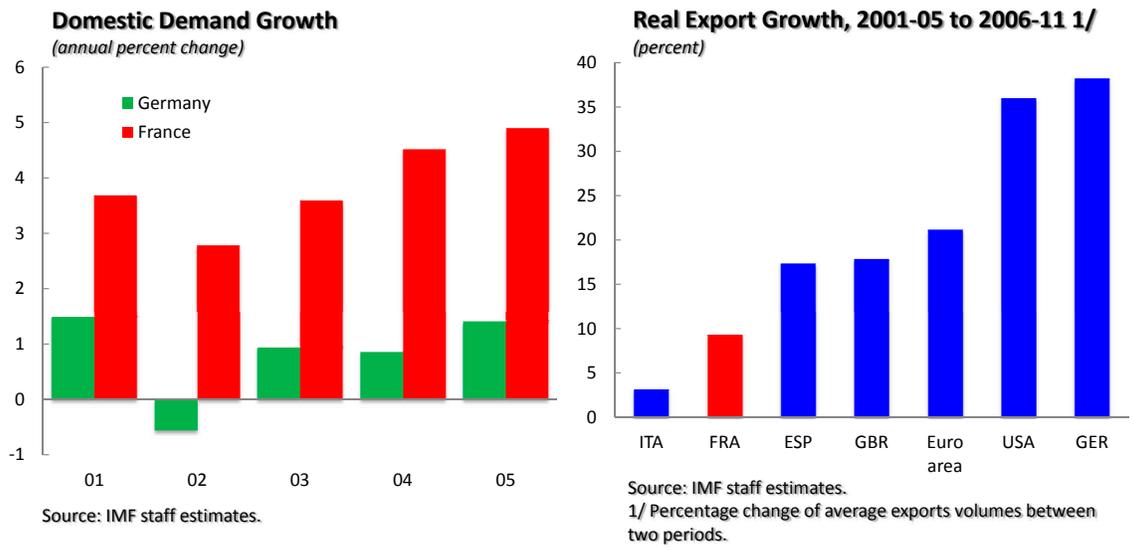
External Imbalances

Current account balance has deteriorated gradually, led by a worsening trade balance, reflecting a combination of higher investment and lower saving



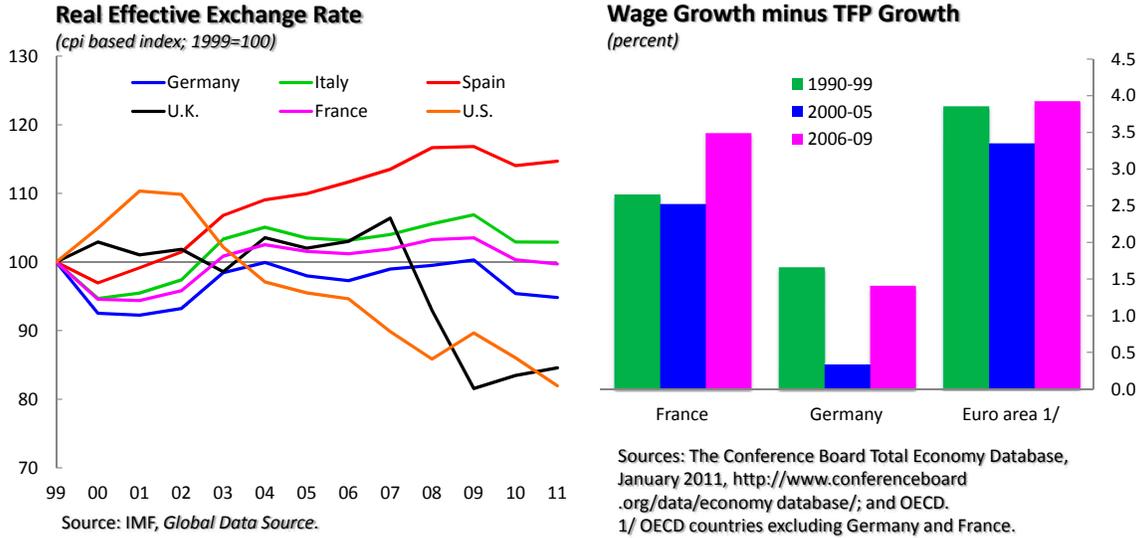
Root Causes of External Imbalances

The current account has deteriorated largely due to strong domestic demand (early 2000s) and a worsening competitiveness of French exports (since mid-2000s)



Root Causes of External Imbalances

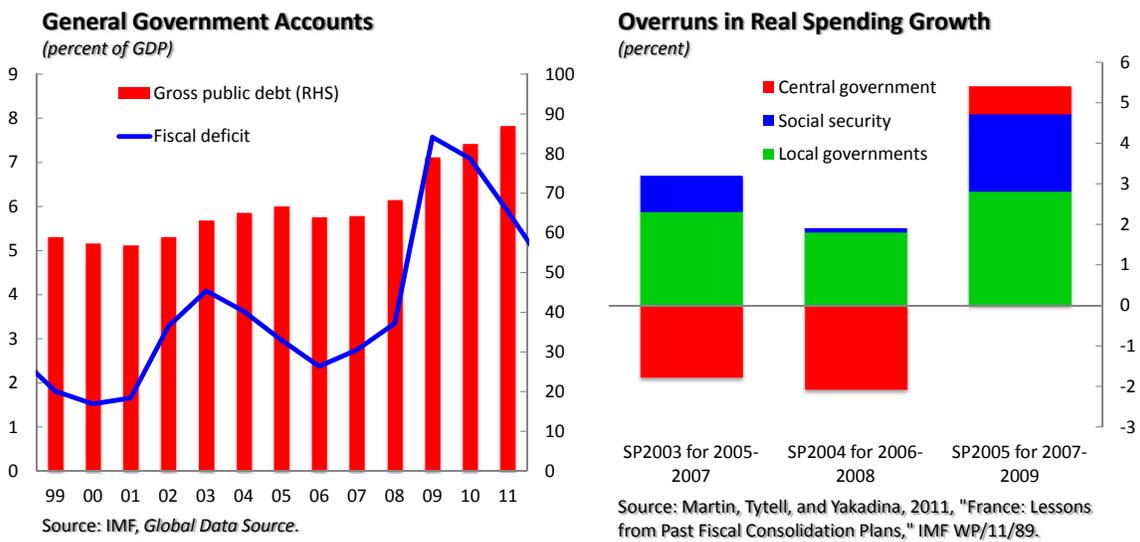
Competitiveness has been worsening, mainly due to a large gap between wage and productivity growth



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Root Causes of Internal Imbalances

Deterioration of public finances reflects fiscal slippages by local governments and social security administration, weakness in fiscal institutions, and crisis-related costs



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How to Address Imbalances?

Long-standing structural reforms to boost competitiveness and growth

- Product market to promote innovation and create favorable business conditions
- Labor market to increase labor participation and re-absorb unemployment
- Labor and business income taxation to improve incentives for employment and growth

Growth-friendly fiscal consolidation

- Additional consolidation efforts needed to achieve the targets for 2013-14
- Fiscal rule based on independent macro forecasts to entrench fiscal credibility
- Continued pension and healthcare reforms to ensure long-term sustainability